

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

**NOTICE OF THE UNITED STATES POSTAL SERVICE OF  
GOVERNORS' DECISION NO. 08-1**

Pursuant to 39 C.F.R. § 3015.2, the United States Postal Service hereby gives notice of a change in rates of general applicability for a competitive product. The change is the establishment of prices for a Priority Mail large-sized flat-rate box.

In accordance with § 3015.2(b), the following are attached:

- The Governors' Decision establishing the change, which includes a statement of explanation and justification, and which orders the change into effect on March 3, 2008.
- A schedule showing the prices and conforming language in the relevant pages in the most recent draft of the Mail Classification Schedule.

Respectfully submitted,

UNITED STATES POSTAL SERVICE  
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January 17, 2008

## **DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON THE PRIORITY MAIL LARGE FLAT-RATE BOX (GOVERNORS' DECISION No. 08-1)**

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January 17, 2008

### **STATEMENT OF EXPLANATION AND JUSTIFICATION**

Pursuant to our authority under section 3632 of title 39, as amended by the Postal Accountability and Enhancement Act of 2006, we establish the following prices for a new, larger (approximately ½ cubic foot) Priority Mail flat-rate box: \$12.95 for domestic mail destined to most ZIP Codes, \$10.95 for domestic mail destined to APO/FPO ZIP Codes, \$29.95 for international mail destined to Mexico and Canada, and \$49.95 for international mail destined to all other countries. We have reviewed the attached analysis provided by management and have evaluated this change in accordance with 39 U.S.C. §§ 3632-3633 and 39 C.F.R. § 3015.2, which address changes in rates of general applicability for competitive services.

As background, we first approved the domestic flat-rate box as an experiment more than three years ago.<sup>1</sup> Subsequently, we concluded that the experiment was a success, and we approved a permanent classification for the flat-rate box as part of the recent omnibus rate case.<sup>2</sup> The existing box has a volume of 0.34 cubic feet, with a price of \$8.95.<sup>3</sup> The Postal Service extended the flat-rate box to international mail in May 2007, at prices of \$23.00 for mail destined to Canada and Mexico, and \$37.00 for mail destined to all other countries.

The Priority Mail flat-rate box has proven to provide value to customers in the form of convenience and ease of use and has made a positive contribution to postal finances. This success suggests a place for an additional Priority Mail flat-rate box. Such an offering would enhance customer choice, convenience and ease of use. The larger box will have a cubic capacity of approximately ½ cubic foot, or about 50 percent more than the current flat-rate box.

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<sup>1</sup> Governors' Decision on Docket No. MC2004-2 (October 29, 2004).

<sup>2</sup> Governors' Decision on Docket No. R2006-1, at 13-14 (March 19, 2007).

<sup>3</sup> Governors' Decision on Reconsideration, Docket No. R2006-1, at 1-2 (May 2, 2007).

As indicated in the attached analysis, the addition of this new option will benefit the Priority Mail flat-rate box rate category. Moreover, the lower rate for APO/FPO-destined ZIP Codes is justified by the analysis, and provides an opportunity for the Postal Service to assist American troops stationed abroad and their families.

Establishment of the larger flat-rate box is a minor change that does not raise an issue of subsidization of competitive products by market dominant products. (39 U.S.C. § 3633(a)(1)). The change will have no negative effects on the ability of Priority Mail or Priority Mail International to cover attributable costs (39 U.S.C. § 3633(a)(2)), or for competitive products as a whole to comply with 39 U.S.C. § 3633(a)(3), which, as implemented by 39 C.F.R. § 3015.7 (c), requires competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs.

#### **ORDER**

The prices specified above for the new flat-rate Priority Mail box shall be effective March 3, 2008. We direct the Secretary to have this decision published in the Federal Register in accordance with 39 U.S.C. § 3632(b)(2). We also direct management to file with the Postal Regulatory Commission appropriate notice of this change.

By The Governors:

  
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James C. Miller III, Chairman

## Analysis of the Priority Mail Large Flat-Rate Box

### DOMESTIC

The Priority Mail large flat-rate box is 0.52 cubic feet (exterior), with dimensions of 12¼" x 12¼" x 6" exterior and 12" x 12" x 5½" interior.

### Pricing

- \$10.95 for Priority Mail shipments to APO/FPO addresses
- \$12.95 for Priority Mail shipments to all other addresses

### Estimated Profitability (FY 2007 Basis)

	Non-APO/ FPO Addresses	APO/FPO Addresses
Price	\$12.95	\$10.95
Est. Unit Cost	\$8.03	\$8.46
Est. Unit Contribution	\$4.92	\$2.49
Implicit Cost Coverage	161%	129%

Note: Calculations include the incremental cost of packaging (over and above the approximately 10 cents per piece "baked in" to every Priority Mail rate cell).

### Support for the Domestic Prices

Given the most recent price change, estimated domestic Priority Mail cost coverage is currently in the range of 135 to 140 percent. The \$12.95 price reflects a premium comparable to that established for the original flat-rate box in 2004, which proved sufficient to protect against the risk of contribution leakage. A preferential \$10.95 price is offered for shipments to APO/FPO addresses. These shipments account for only seven percent of total current flat-rate-box volume. The price is sufficient to provide adequate contribution because of the unique demand characteristics of care-package shipments.

### Compliance with Relevant Law

By sheer weight of volume, the primary use of the larger flat-rate box will be for general domestic Priority Mail shipments. Based on experience with the existing flat-rate box, the premium built into the \$12.95 price is likely to produce an increase in contribution. Some contribution leakage is likely to result from lower-volume APO/FPO applications, but the amount should be minimal. As shown above, the Priority Mail large flat-rate box will easily cover its costs. Therefore, the domestic Priority Mail large flat-rate box is not expected to raise an issue of subsidization of competitive products by market dominant products (39 U.S.C. § 3633(a)(1)); or undermine the ability of Priority Mail to cover its attributable costs (39 U.S.C. § 3633(a)(2)); or undermine the ability of competitive products as a whole to comply with 39 U.S.C. § 3633(a)(3), which, as implemented by

39 C.F.R. § 3015.7 (c), requires competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs.

### **INTERNATIONAL**

The same flat-rate box will be used for Priority Mail International (PMI).

#### **Pricing**

- \$29.95 for Priority Mail International shipments to Canada and Mexico
- \$49.95 for Priority Mail International shipments to the rest of the world

#### **Estimated Profitability (FY 2007 Basis)**

	Canada and Mexico	All Other Countries
Price	\$29.95	\$49.95
Est. Unit Cost	\$21.46	\$39.83
Est. Unit Contribution	\$8.49	\$10.12
Implicit Cost Coverage	140%	125%

#### **Support for the International Prices**

The estimated overall Priority Mail International cost coverage is 128 percent. The Canada and Mexico price of \$29.95 and the Rest-of-the-World price of \$49.95 yield a weighted-average implicit cost coverage the same as PMI as a whole, 128 percent. The risk of contribution leakage is contained by the imposition of a 20-pound weight limit.

#### **Compliance with Relevant Law**

The Priority Mail large flat-rate box will represent a small percentage of total Priority Mail International (PMI) volume. It, therefore, can have only a limited effect on total contribution, but it is designed to increase contribution by having a price set approximately at the average for similar-weight PMI pieces. It may also increase contribution by increasing total PMI usage. Any potential for contribution loss is partially offset by the imposition of a 20-pound limit. As shown above, the large flat-rate box will easily cover its costs. Therefore, the Priority Mail International large flat-rate box will not raise an issue of subsidization of competitive products by market dominant products (39 U.S.C. § 3633(a)(1)); or undermine the ability of Priority Mail International to cover its attributable costs (39 U.S.C. § 3633(a)(2)); or undermine the ability of competitive products as a whole to comply with 39 U.S.C. § 3633(a)(3), which, as implemented by 39 C.F.R. § 3015.7 (c), requires competitive products to contribute a minimum of 5.5 percent to the Postal Service's total institutional costs.

## MAIL CLASSIFICATION SCHEDULE — DESCRIPTION OF COMPETITIVE PRODUCTS

### DOMESTIC

#### Priority Mail

Any matter eligible for mailing may, at the option of the mailer, be mailed by Priority Mail service for expeditious handling and transportation. Matter containing personal information, partially or wholly handwritten or typewritten matter, or bills or statements of account must be mailed as Priority Mail pieces if they exceed the weight limit set by the Postal Service for First-Class Mail, unless mailed by Express Mail service, exempt under title 39, United States Code, or are otherwise exempted by the Postal Service. Priority Mail pieces are sealed against postal inspection and shall not be opened except as authorized by law.

#### Size and Weight:

	Length	Height	Width	Weight
Minimum	large enough to accommodate postage, address and other required elements on the address side.			none
Maximum	108 inches in combined length and girth			70 pounds

**Minimum Volume:** None

#### Price Categories:

##### Zone/Weight Rated

Flat Rate Boxes – Provided by the Postal Service.

Flat Rate Envelope – Provided by the Postal Service.

##### Balloon Rate

##### Dimensional Weight

#### Optional Features:

Pickup on Demand

##### Ancillary Services

- Address Correction Service
- Business Reply Mail
- Certificate of Mailing
- Certified Mail
- Collect On Delivery
- Delivery Confirmation
- Insurance
- Merchandise Return
- Registered Mail
- Restricted Delivery
- Return Receipt
- Return Receipt for Merchandise
- Signature Confirmation
- Special Handling

## MAIL CLASSIFICATION SCHEDULE — DESCRIPTION OF COMPETITIVE PRODUCTS

### DOMESTIC

#### Priority Mail

#### Prices:

Weight Not Over (pounds)	Local, Zones 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1	4.60	4.60	4.60	4.60	4.60	4.60	4.60
2	4.60	4.90	5.30	6.20	6.55	7.00	7.50
3	5.05	5.70	6.40	8.25	9.10	9.65	10.55
4	5.70	6.65	7.70	10.20	11.10	12.20	13.45
5	6.30	7.55	8.90	11.90	12.90	14.35	15.85
6	6.85	8.25	10.00	12.95	13.10	14.75	16.05
7	7.35	8.85	11.00	13.95	14.35	16.40	18.30
8	7.75	9.60	11.95	14.90	15.60	18.00	20.55
9	8.15	10.25	12.50	15.90	16.85	19.60	22.85
10	8.50	10.75	13.10	16.95	18.25	21.30	25.05
11	8.80	11.20	13.65	17.95	19.75	22.90	26.35
12	9.15	11.70	14.20	18.95	21.30	24.10	27.50
13	9.50	12.20	14.75	20.00	22.85	25.05	28.45
14	9.80	12.70	15.35	20.90	24.10	26.50	29.85
15	10.15	13.20	15.90	21.55	24.65	26.75	30.50
16	10.35	13.45	16.20	22.00	25.20	27.35	31.25
17	10.50	13.70	16.50	22.55	25.85	28.05	32.10
18	10.70	13.90	16.80	23.00	26.35	28.60	32.85
19	11.10	14.15	17.10	23.55	27.00	29.30	33.70
20	11.60	14.35	17.40	23.95	27.50	29.85	34.40
21	12.00	14.55	17.70	24.35	27.95	30.40	35.10
22	12.50	14.80	17.95	24.90	28.60	31.10	35.95
23	12.90	15.00	18.45	25.30	29.10	31.65	36.60
24	13.35	15.20	19.00	25.85	29.70	32.35	37.50
25	13.85	15.40	19.65	26.25	30.15	32.85	38.15
26	14.25	15.60	20.25	26.80	30.80	33.55	39.35
27	14.70	15.80	20.85	27.20	31.25	34.05	40.80
28	15.15	16.00	21.40	27.55	31.70	34.55	42.30
29	15.60	16.20	22.05	27.90	32.10	35.00	43.70
30	16.10	16.40	22.65	28.30	32.55	35.50	45.15
31	16.50	16.55	23.25	28.65	32.95	35.95	46.65
32	16.95	16.95	23.85	29.00	33.40	36.80	48.10
33	17.40	17.40	24.40	29.35	33.80	37.85	49.50
34	17.85	17.85	25.05	30.00	34.80	38.90	50.95
35	18.30	18.30	25.65	30.65	35.75	39.95	52.40
36	18.75	18.75	26.25	31.30	36.70	41.05	53.85
37	19.20	19.20	26.95	31.90	37.65	42.10	55.30
38	19.65	19.65	27.50	32.55	38.70	43.10	56.75
39	20.05	20.05	28.25	33.20	39.65	44.20	58.25
40	20.45	20.45	28.90	33.85	40.55	45.20	59.65
41	20.85	20.85	29.50	34.20	41.50	46.25	61.10

## MAIL CLASSIFICATION SCHEDULE — DESCRIPTION OF COMPETITIVE PRODUCTS

### DOMESTIC

#### Priority Mail

##### Prices:

Weight Not Over (pounds)	Local, Zones 1 & 2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
42	21.25	21.25	30.25	34.90	42.40	47.35	62.55
43	21.65	21.65	30.90	35.70	43.45	48.40	64.00
44	22.05	22.05	31.50	36.50	44.35	49.50	65.45
45	22.45	22.45	32.20	37.25	45.30	50.55	66.90
46	22.85	22.85	32.90	38.00	46.25	51.60	68.35
47	23.25	23.25	33.50	38.80	47.30	52.70	69.75
48	23.65	23.65	34.25	39.60	48.25	53.75	71.25
49	24.05	24.05	34.90	40.30	49.15	54.85	72.70
50	24.40	24.40	35.55	41.10	50.10	55.90	74.15
51	24.85	24.85	36.20	41.90	51.05	56.95	75.60
52	25.20	25.20	36.90	42.70	52.10	58.00	77.05
53	25.65	25.65	37.50	43.45	53.00	59.10	78.50
54	26.00	26.00	38.15	44.25	53.90	60.10	79.90
55	26.45	26.45	38.90	45.05	54.85	61.10	81.35
56	26.80	26.80	39.50	45.75	55.90	62.20	82.85
57	27.25	27.25	40.15	46.50	56.80	63.25	84.30
58	27.60	27.60	40.85	47.30	57.75	64.30	85.70
59	28.05	28.05	41.50	48.10	58.70	65.35	87.20
60	28.40	28.40	42.15	48.90	59.70	66.40	88.65
61	28.85	28.85	42.90	49.65	60.70	67.45	90.10
62	29.20	29.20	43.50	50.45	61.60	68.50	91.50
63	29.65	29.65	44.20	51.25	62.55	69.55	92.95
64	30.00	30.00	44.85	52.05	63.50	70.55	94.45
65	30.45	30.45	45.45	52.70	64.50	71.65	95.90
66	30.80	30.80	46.15	53.50	65.40	72.70	97.30
67	31.25	31.25	46.90	54.30	66.35	73.70	98.80
68	31.60	31.60	47.50	55.10	67.30	74.80	100.20
69	32.05	32.05	48.15	55.90	68.30	75.85	101.65
70	32.45	32.45	48.90	56.65	69.25	76.90	103.10

For each Pickup On-Demand stop, add 14.25.

Flat Rate Envelope: The 1-pound price is charged for matter sent in a flat-rate envelope provided by the Postal Service.

Regular Flat Rate Box: 8.95 is charged for matter sent in a regular-size flat-rate box provided by the Postal Service.

Large Flat Rate Box: \$12.95 is charged for matter sent in a large-size flat-rate box provided by the Postal Service, except that \$10.95 is charged for delivery to APO/FPO addresses.

Balloon Rate: In Zones 1-4 (including local), parcels weighing less than 20 pounds but measuring more than 84 inches in combined length and girth (though not more than 108 inches) are charged the applicable price for a 20-pound parcel.

Dimensional Weight: In Zones 5-8, parcels exceeding one cubic foot are priced at the actual weight or the dimensional weight, whichever is greater.

## MAIL CLASSIFICATION SCHEDULE — DESCRIPTION OF COMPETITIVE PRODUCTS

### INTERNATIONAL

#### International Packages

International Packages are made up of the Priority Mail International Flat Rate Envelope, the Priority Mail International Flat Rate Boxes, and Priority Mail International Parcels. With the exception of the flat-rate envelope, International Packages are an outbound international mail service designed for the carriage of postal parcels. Written correspondence having the nature of current and personal correspondence is not permitted in Priority Mail International parcels, but may be sent in the Priority Mail International Flat-Rate envelope. Only the Priority Mail International Flat Rate Envelope is sealed against postal inspection and shall not be opened except as authorized by law. Discounts for online preparation and payment or for use of an authorized PC postage vendor may apply as specified in the International Mail Manual.

#### Size and Weight:

	Length	Height	Width	Weight <sup>1</sup>
Minimum	5.5 inches	none	3.5 inches	none
Maximum	42 inches	length plus girth: 79 inches Circular parcels: length plus diameter: 64 inches.		70

<sup>1</sup> Weight and other exceptional size limits based on shape and destination country restrictions may apply as specified in the International Mail Manual

**Minimum Volume:** None

#### Price Categories:

##### Priority Mail International Flat-Rate Envelope

- Canada and Mexico
- All other countries

##### Priority Mail International Flat-Rate Boxes

- Canada and Mexico
- All other countries

##### Priority Mail International Parcels

- Price Group 1
- Price Group 2
- Price Group 3
- Price Group 4
- Price Group 5
- Price Group 6
- Price Group 7
- Price Group 8
- Price Group 9
- Price Group 10

Subject to the provisions of the Universal Postal Union Convention, Priority Mail International Parcels include indemnity coverage in the postage prices. Indemnity is limited to the lesser of the actual value of the contents or the maximum indemnity based on weight.

## MAIL CLASSIFICATION SCHEDULE — DESCRIPTION OF MARKET-DOMINANT PRODUCTS

Customized Pricing – Available through mailer-specific agreement.

### **Optional Features:**

Global Shipping Solutions (GSS)<sup>1</sup>  
Pickup On-Demand

#### International Ancillary Services

- International Certificate of Mailing
- International Insurance
- International Registered Mail
- International Restricted Delivery
- International Return Receipt

<sup>1</sup> GSS is software developed by the Postal Service to help mailers perform international package shipping. Features of GSS support labeling of packages, manifesting, pre-notification of foreign agents and officials, pre-payment of duties and taxes, and coordination of returns. GSS is only available through customized agreements.

## MAIL CLASSIFICATION SCHEDULE — DESCRIPTION OF MARKET-DOMINANT PRODUCTS

### INTERNATIONAL

#### International Packages

##### Prices:

##### Priority Mail International Flat-Rate Envelope

	Large Envelope (9.5" X 12.5")
Canada and Mexico	9.00
All Other Countries	11.00

For each Pickup On-Demand stop, add 14.25.

##### Priority Mail International Regular Flat-Rate Box

	Box
Canada and Mexico	23.00
All Other Countries	37.00

For each Pickup On-Demand stop, add 14.25.

##### Priority Mail International Large Flat-Rate Box

	<u>Box</u>
<u>Canada and Mexico</u>	<u>29.95</u>
<u>All Other Countries</u>	<u>49.95</u>

For each Pickup On-Demand stop, add 14.25.